

State of Arizona  
Senate  
Forty-eighth Legislature  
Second Regular Session  
2008

# SENATE BILL 1499

AN ACT

AMENDING SECTIONS 38-651 AND 38-651.01, ARIZONA REVISED STATUTES; RELATING TO  
STATE EMPLOYEE HEALTH AND ACCIDENT INSURANCE.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 38-651, Arizona Revised Statutes, is amended to  
3 read:

4 38-651. Expenditure of monies for health and accident  
5 insurance; definition

6 A. The department of administration may expend public monies  
7 appropriated for such purpose to procure health and accident coverage for  
8 full-time officers and employees of the state and its departments and  
9 agencies. The department of administration may adopt rules which provide  
10 that if an employee dies while the employee's surviving spouse's health  
11 insurance is in force, the surviving spouse shall be entitled to no more than  
12 thirty-six months of extended coverage at one hundred two per cent of the  
13 group rates by paying the premiums. No public monies may be expended to pay  
14 all or any part of the premium of health insurance continued in force by the  
15 surviving spouse. The department of administration shall seek a variety of  
16 plans, including indemnity health insurance, hospital and medical service  
17 plans, dental plans and health maintenance organizations. On a  
18 recommendation of the department of administration and the review of the  
19 joint legislative budget committee, the department of administration may  
20 self-insure for the purposes of this subsection. If the department of  
21 administration self-insures, the department may contract directly with  
22 preferred provider organizations, physician and hospital networks, indemnity  
23 health insurers, hospital and medical service plans, dental plans and health  
24 maintenance organizations. If the department self-insures, the department  
25 shall provide that the self-insurance program include all health coverage  
26 benefits that are mandated pursuant to title 20. The self-insurance program  
27 shall include provisions to provide for the protection of the officers and  
28 employees, including grievance procedures for claim or treatment denials,  
29 creditable coverage determinations, dissatisfaction with care and access to  
30 care issues. The department of administration by rule shall designate and  
31 adopt performance standards, including cost competitiveness, utilization  
32 review issues, network development and access, conversion and implementation,  
33 report timeliness, quality outcomes and customer satisfaction for qualifying  
34 plans. The qualifying plans for which the standards are adopted include  
35 indemnity health insurance, hospital and medical service plans, closed panel  
36 medical and dental plans and health maintenance organizations, and for  
37 eligibility of officers and employees to participate in such plans. Any  
38 indemnity health insurance or hospital and medical service plan designated as  
39 a qualifying plan by the department of administration must be open for  
40 enrollment to all permanent full-time state employees, except that any plan  
41 established prior to June 6, 1977 may be continued as a separate plan. Any  
42 closed panel medical or dental plan or health maintenance organization  
43 designated as the qualifying plan by the department of administration must be  
44 open for enrollment to all permanent full-time state employees residing

1 within the geographic area or area to be served by the plan or organization.  
2 Officers and employees may select coverage under the available options.

3 B. The department of administration may expend public monies  
4 appropriated for such purpose to procure health and accident coverage for the  
5 dependents of full-time officers and employees of the state and its  
6 departments and agencies. The department of administration shall seek a  
7 variety of plans, including indemnity health insurance, hospital and medical  
8 service plans, dental plans and health maintenance organizations. On a  
9 recommendation of the department of administration and the review of the  
10 joint legislative budget committee, the department of administration may  
11 self-insure for the purposes of this subsection. If the department of  
12 administration self-insures, the department may contract directly with  
13 preferred provider organizations, physician and hospital networks, indemnity  
14 health insurers, hospital and medical service plans, dental plans and health  
15 maintenance organizations. If the department self-insures, the department  
16 shall provide that the self-insurance program include all health coverage  
17 benefits that are mandated pursuant to title 20. The self-insurance program  
18 shall include provisions to provide for the protection of the officers and  
19 employees, including grievance procedures for claim or treatment denials,  
20 creditable coverage determinations, dissatisfaction with care and access to  
21 care issues. The department of administration by rule shall designate and  
22 adopt performance standards, including cost competitiveness, utilization  
23 review issues, network development and access, conversion and implementation,  
24 report timeliness, quality outcomes and customer satisfaction for qualifying  
25 plans. The qualifying plans for which the standards are adopted include  
26 indemnity health insurance, hospital and medical service plans, closed panel  
27 medical and dental plans and health maintenance organizations, and for  
28 eligibility of the dependents of officers and employees to participate in  
29 such plans. Any indemnity health insurance or hospital and medical service  
30 plan designated as a qualifying plan by the department of administration must  
31 be open for enrollment to all permanent full-time state employees, except  
32 that any plan established prior to June 6, 1977 may be continued as a  
33 separate plan. Any closed panel medical or dental plan or health maintenance  
34 organization designated as a qualifying plan by the department of  
35 administration must be open for enrollment to all permanent full-time state  
36 employees residing within the geographic area or area to be served by the  
37 plan or organization. Officers and employees may select coverage under the  
38 available options.

39 C. The department of administration may designate the Arizona health  
40 care cost containment system established by title 36, chapter 29 as a  
41 qualifying plan for the provision of health and accident coverage to  
42 full-time state officers and employees and their dependents. The Arizona  
43 health care cost containment system shall not be the exclusive qualifying  
44 plan for health and accident coverage for state officers and employees either  
45 on a statewide or regional basis.

1 D. Except as provided in section 38-652, public monies expended  
2 pursuant to this section each month shall not exceed:

3 1. Five hundred dollars multiplied by the number of officers and  
4 employees who receive individual coverage.

5 2. One thousand two hundred dollars multiplied by the number of  
6 married couples if both members of the couple are either officers or  
7 employees and each receives individual coverage or family coverage.

8 3. One thousand two hundred dollars multiplied by the number of  
9 officers or employees who receive family coverage if the spouses of the  
10 officers or employees are not officers or employees.

11 E. Subsection D of this section:

12 1. Establishes a total maximum expenditure of public monies pursuant  
13 to this section.

14 2. Does not establish a minimum or maximum expenditure for each  
15 individual officer or employee.

16 F. In order to ensure that an officer or employee does not suffer a  
17 financial penalty or receive a financial benefit based on the officer's or  
18 employee's age, gender or health status, the department of administration  
19 shall consider implementing the following:

20 1. Requests for proposals for health insurance that specify that the  
21 carrier's proposed premiums for each plan be based on the expected age,  
22 gender and health status of the entire pool of employees and officers and  
23 their family members enrolled in all qualifying plans and not on the age,  
24 gender or health status of the individuals expected to enroll in the  
25 particular plan for which the premium is proposed.

26 2. Recommendations from a legislatively established study group on  
27 risk adjustments relating to a system for reallocating premium revenues among  
28 the contracting qualifying plans to the extent necessary to adjust the  
29 revenues received by any carrier to reflect differences between the average  
30 age, gender and health status of the enrollees in that carrier's plan or  
31 plans and the average age, gender and health status of all enrollees in all  
32 qualifying plans.

33 G. Each officer or employee shall certify on the initial application  
34 for family coverage that such officer or employee is not receiving more than  
35 the contribution for which eligible pursuant to subsection D of this section.  
36 Each officer or employee shall also provide such certification on any change  
37 of coverage or marital status.

38 H. If a qualifying health maintenance organization is not available to  
39 an officer or employee within fifty miles of the officer's or employee's  
40 residence and the officer or employee is enrolled in a qualifying plan, the  
41 officer or employee shall be offered the opportunity to enroll with a health  
42 maintenance organization when the option becomes available. If a health  
43 maintenance organization is available within fifty miles and it is determined  
44 by the department of administration that there is an insufficient number of  
45 medical providers in the organization, the department may provide for a

1 change in enrollment from plans designated by the director when additional  
2 medical providers join the organization.

3 I. Notwithstanding the provisions of subsection H of this section,  
4 officers and employees who enroll in a qualifying plan and reside outside the  
5 area of a qualifying health maintenance organization shall be offered the  
6 option to enroll with a qualified health maintenance organization offered  
7 through their provider under the same premiums as if they lived within the  
8 area boundaries of the qualified health maintenance organization, provided  
9 that:

10 1. All medical services are rendered and received at an office  
11 designated by the qualifying health maintenance organization or at a facility  
12 referred by the health maintenance organization.

13 2. All nonemergency or nonurgent travel, ambulatory and other expenses  
14 from the residence area of the officer or employee to the designated office  
15 of the qualifying health maintenance organization or the facility referred by  
16 the health maintenance organization shall be the responsibility of and at the  
17 expense of the officer or employee.

18 3. All emergency or urgent travel, ambulatory and other expenses from  
19 the residence area of the officer or employee to the designated office of the  
20 qualifying health maintenance organization or the facility referred by the  
21 health maintenance organization shall be paid pursuant to any agreement  
22 between the health maintenance organization and the officer or employee  
23 living outside the area of the qualifying health maintenance organization.

24 J. The department of administration shall allow any school district in  
25 this state that meets the requirements of section 15-388, a charter school in  
26 this state that meets the requirements of section 15-187.01 or a city, town,  
27 county, community college district, special taxing district, authority or  
28 public entity organized pursuant to the laws of this state that meets the  
29 requirements of section 38-656 to participate in the health and accident  
30 coverage prescribed in this section, except that participation is only  
31 allowed in a health plan that is offered by the department and that is  
32 subject to title 20, chapter 1, article 1. A school district, a charter  
33 school, a city, a town, a county, a community college district, a special  
34 taxing district, an authority or any public entity organized pursuant to the  
35 laws of this state rather than the state shall pay directly to the benefits  
36 provider the premium for its employees.

37 K. The department of administration shall determine the actual  
38 administrative and operational costs associated with school districts,  
39 charter schools, cities, towns, counties, community college districts,  
40 special taxing districts, authorities and public entities organized pursuant  
41 to the laws of this state participating in the state health and accident  
42 insurance coverage. These costs shall be allocated to each school district,  
43 charter school, city, town, county, community college district, special  
44 taxing district, authority and public entity organized pursuant to the laws  
45 of this state based upon the total number of employees participating in the

1 coverage. This subsection only applies to a health plan that is offered by  
2 the department and that is subject to title 20, chapter 1, article 1.

3 L. Insurance providers contracting with the state shall separately  
4 maintain records that delineate claims and other expenses attributable to  
5 participation of a school district, charter school, city, town, county,  
6 community college district, special taxing district, authority and public  
7 entity organized pursuant to the laws of this state in the state health and  
8 accident insurance coverage and, by November 1 of each year, shall report to  
9 the department of administration the extent to which state costs are impacted  
10 by participation of school districts, charter schools, cities, towns,  
11 counties, community college districts, special taxing districts, authorities  
12 and public entities organized pursuant to the laws of this state in the state  
13 health and accident insurance coverage. By December 1 of each year, the  
14 director of the department of administration shall submit a report to the  
15 president of the senate and the speaker of the house of representatives  
16 detailing the information provided to the department by the insurance  
17 providers and including any recommendations for possible legislative action.

18 M. Notwithstanding subsection J of this section, any school district  
19 in this state that meets the requirements of section 15-388, a charter school  
20 in this state that meets the requirements of section 15-187.01 or a city,  
21 town, county, community college district, special taxing district, authority  
22 or public entity organized pursuant to the laws of this state that meets the  
23 requirements of section 38-656 may apply to the department of administration  
24 to participate in the self-insurance program that is provided by this section  
25 pursuant to rules adopted by the department. A participating entity shall  
26 reimburse the department for all premiums and administrative or other  
27 insurance costs. The department shall actuarially prescribe the annual  
28 premium for each participating entity to reflect the actual cost of each  
29 participating entity.

30 N. Any person that submits a bid to provide health and accident  
31 coverage pursuant to this section shall disclose any court or administrative  
32 judgments or orders issued against that person within the last ten years  
33 before the submittal.

34 O. FOR THE PURPOSES OF THIS SECTION, "DEPENDENT" MEANS THE EMPLOYEE'S  
35 SPOUSE UNDER THE LAWS OF THIS STATE OR UNMARRIED CHILD WHO FALLS WITHIN ONE  
36 OR MORE OF THE FOLLOWING CATEGORIES:

37 1. A NATURAL CHILD, ADOPTED CHILD OR STEPCHILD WHO IS UNDER NINETEEN  
38 YEARS OF AGE OR WHO IS UNDER TWENTY-FIVE YEARS OF AGE IF A FULL-TIME STUDENT.

39 2. A CHILD WHO IS UNDER NINETEEN YEARS OF AGE FOR WHOM THE EMPLOYEE  
40 HAS COURT ORDERED GUARDIANSHIP.

41 3. A FOSTER CHILD WHO IS UNDER NINETEEN YEARS OF AGE.

42 4. A CHILD WHO IS UNDER NINETEEN YEARS OF AGE AND WHO IS PLACED IN THE  
43 EMPLOYEE'S HOME BY COURT ORDER PENDING ADOPTION.

44 5. A NATURAL CHILD, ADOPTED CHILD OR STEPCHILD WHO WAS DISABLED BEFORE  
45 NINETEEN YEARS OF AGE, WHO CONTINUES TO BE DISABLED PURSUANT TO 42 UNITED

1 STATES CODE SECTION 1382c AND FOR WHOM THE EMPLOYEE HAD CUSTODY BEFORE  
2 NINETEEN YEARS OF AGE.

3 Sec. 2. Section 38-651.01, Arizona Revised Statutes, is amended to  
4 read:

5 38-651.01. Group health and accident coverage for retired  
6 public employees and elected officials and their  
7 dependents; definition

8 A. The department of administration ~~shall~~, by rule, SHALL adopt  
9 standards to establish group health and accident coverage for former  
10 employees who worked for the state of Arizona and who opt upon retirement to  
11 enroll or continue enrollment in the group health and accident coverage for  
12 active employees working for the state of Arizona, or disabled, and receiving  
13 either income from a retirement program of this state or long-term disability  
14 income benefits pursuant to section 38-651.03 or chapter 5, article 2.1 of  
15 this title and their dependents and to establish eligibility for retired or  
16 disabled state employees to participate in the coverage. The department of  
17 administration may adopt rules which provide that if a retired or disabled  
18 insured dies before an insured surviving dependent, the insured surviving  
19 dependent is entitled to extended coverage at group rates if the insured  
20 surviving dependent elects to continue in the coverage within six months of  
21 the retired or disabled insured's death and the insured surviving dependent  
22 agrees to pay the cost of the premium for group health and accident  
23 insurance. Upon notification of the retired or disabled insured's death, the  
24 department of administration shall immediately notify an insured surviving  
25 dependent of the provisions of this section. The department of  
26 administration may enter into agreements with disabled former state employees  
27 and their dependents who elect to obtain the coverage provided by this  
28 section. The agreements may include provisions for the payment of amounts  
29 sufficient to pay for the premium and administrative expense of providing the  
30 coverage. The department of administration may adopt rules which provide  
31 that upon the death of a state employee who at the time of death was eligible  
32 for normal retirement pursuant to section 38-757 under the Arizona state  
33 retirement system, the insured surviving spouse and eligible dependent  
34 children are entitled to continue coverage under group rates provided that  
35 the deceased insured state employee, spouse and dependent children were  
36 insured at the time of the employee's death. The insured surviving spouse  
37 shall be charged an amount sufficient to pay the full premium for the  
38 coverage.

39 B. The department of administration ~~may~~, by rule, MAY adopt standards  
40 to establish group health and accident coverage for former elected officials  
41 of this state or its political subdivisions and their dependents and to  
42 establish eligibility for former elected officials to participate in the  
43 coverage. Qualifications for eligibility shall include that the former  
44 elected official has at least five years of credited service in the elected  
45 officials' retirement plan pursuant to chapter 5 of this title, had been

1 covered under a group health or group health and accident plan while serving  
2 as an elected official and had been serving as an elected official on or  
3 after January 1, 1983. The department of administration may adopt rules  
4 which provide that upon the death of an elected official or insured former  
5 elected official, the insured surviving spouse is entitled to coverage at  
6 group rates provided that the deceased insured former elected official met or  
7 would have met the qualifications for eligibility pursuant to this subsection  
8 or that the deceased elected official would have met the qualifications for  
9 eligibility had the deceased not been in office at the time of death. Except  
10 as provided in subsection J of this section, the insured former elected  
11 official or the insured surviving spouse shall be charged amounts which are  
12 sufficient to pay for the premium and state administrative expense of  
13 providing coverage. Notwithstanding subsection J of this section, the  
14 standards shall provide that all or any portion of the former state employees  
15 or former elected officials or their dependents shall be grouped with  
16 officers and employees of the state and its departments and agencies or their  
17 dependents as necessary to obtain health and accident coverage at favorable  
18 rates.

19 C. The ARIZONA state retirement system board may enter into agreements  
20 with retired and disabled state employee members of the system and plan who  
21 elect to obtain the coverage provided pursuant to subsection A of this  
22 section. The agreements may include provision for the deduction from the  
23 retirement benefits of participants of a retirement program of this state who  
24 elect to obtain coverage of amounts sufficient to pay for the premium not  
25 covered under retirement benefits and state administrative expense of  
26 providing coverage.

27 D. Retired state employee or disabled state employee members of the  
28 public safety personnel retirement system, the elected officials' retirement  
29 plan, the corrections officer retirement plan or the optional retirement  
30 programs authorized pursuant to section 15-1628 who opt upon retirement to  
31 enroll or continue enrollment in the group health and accident coverage for  
32 active employees working for the state of Arizona and their dependents and  
33 who are receiving benefits from the public safety personnel retirement  
34 system, the elected officials' retirement plan, the corrections officer  
35 retirement plan or the optional retirement programs authorized pursuant to  
36 section 15-1628 may participate in group health and accident coverage  
37 provided pursuant to this section. The department of administration shall  
38 adopt rules which are necessary for the implementation of this subsection.

39 E. The fund manager of the public safety personnel retirement system  
40 may enter into agreements with retired state employee members and their  
41 dependents who elect to obtain the coverage provided pursuant to this  
42 section. The agreements may include provision for the deduction from the  
43 retirement benefits of participants of a retirement program of this state who  
44 elect to obtain coverage of amounts sufficient to pay for the premium not



1 covered under retirement benefits and state administrative expense of  
2 providing coverage.

3 F. The fund manager of the public safety personnel retirement system  
4 may enter into agreements with retired judges and retired elected officials  
5 and their dependents who elect to obtain the coverage provided pursuant to  
6 this section. The agreements may include provision for the deduction from  
7 the retirement benefits of participants of a retirement program of this state  
8 who elect to obtain coverage of amounts sufficient to pay for the premium not  
9 covered under retirement benefits and state administrative expense of  
10 providing coverage.

11 G. The fund manager of the public safety personnel retirement system  
12 may contract with an insurance carrier and adopt standards to establish a  
13 group health and accident insurance coverage program for retired members of  
14 the public safety personnel retirement system, their dependents and their  
15 spouses. Any members or spouses who elect to obtain the group health and  
16 accident coverage provided under this subsection shall agree to a deduction  
17 from their monthly retirement benefits of an amount sufficient to pay for the  
18 premium not covered under retirement benefits and the administrative expense  
19 of providing coverage.

20 H. A county board of supervisors may enter into agreements to  
21 establish group health and accident coverage for retired or disabled county  
22 employees and their dependents who elect to obtain the coverage provided  
23 pursuant to section 11-263, subsection B. The agreements may include  
24 provision for the deduction from the retirement benefits of participants of a  
25 retirement program of this state who elect to obtain the coverage of amounts  
26 sufficient to pay for the premium not covered under retirement benefits and  
27 the administrative expense of providing for the coverage.

28 I. Nonmedicare eligible retirees who live in this state, who enroll in  
29 a qualifying plan under this section and who reside outside the area of a  
30 qualifying health maintenance organization shall be offered the option to  
31 enroll with a qualified health maintenance organization offered through their  
32 provider under the same premiums as if they lived within the area boundaries  
33 of the qualified health maintenance organization provided that:

34 1. All medical services are rendered and received at an office  
35 designated by the qualifying health maintenance organization or at a facility  
36 referred by the health maintenance organization.

37 2. All nonemergency or nonurgent travel, ambulatory and other expenses  
38 from the residence area of the retiree to the designated office of the  
39 qualifying health maintenance organization or the facility referred by the  
40 health maintenance organization are the responsibility of and at the expense  
41 of the retiree.

42 3. All emergency or urgent travel, ambulatory and other expenses from  
43 the residence area of the retiree to the designated office of the qualifying  
44 health maintenance organization or the facility referred by the health  
45 maintenance organization shall be paid pursuant to any agreement between the

1 health maintenance organization and the retiree living outside the area of  
2 the qualifying health maintenance organization.

3 J. Public funds shall not be expended to pay all or any part of the  
4 premium of insurance pursuant to this section except for monies authorized to  
5 be paid for any insured from the retirement plan from which the insured is  
6 receiving benefits.

7 K. FOR THE PURPOSES OF THIS SECTION, "DEPENDENT" MEANS THE RETIREE'S  
8 OR FORMER ELECTED OFFICIAL'S SPOUSE UNDER THE LAWS OF THIS STATE OR UNMARRIED  
9 CHILD WHO FALLS WITHIN ONE OR MORE OF THE FOLLOWING CATEGORIES:

10 1. A NATURAL CHILD, ADOPTED CHILD OR STEPCHILD WHO IS UNDER NINETEEN  
11 YEARS OF AGE OR WHO IS UNDER TWENTY-FIVE YEARS OF AGE IF A FULL-TIME STUDENT.

12 2. A CHILD WHO IS UNDER NINETEEN YEARS OF AGE FOR WHOM THE RETIREE OR  
13 FORMER ELECTED OFFICIAL HAS COURT ORDERED GUARDIANSHIP.

14 3. A FOSTER CHILD WHO IS UNDER NINETEEN YEARS OF AGE.

15 4. A CHILD WHO IS UNDER NINETEEN YEARS OF AGE AND WHO IS PLACED IN THE  
16 RETIREE'S OR FORMER ELECTED OFFICIAL'S HOME BY COURT ORDER PENDING ADOPTION.

17 5. A NATURAL CHILD, ADOPTED CHILD OR STEPCHILD WHO WAS DISABLED BEFORE  
18 NINETEEN YEARS OF AGE, WHO CONTINUES TO BE DISABLED PURSUANT TO 42 UNITED  
19 STATES CODE SECTION 1382c AND FOR WHOM THE RETIREE OR FORMER ELECTED OFFICIAL  
20 HAD CUSTODY BEFORE NINETEEN YEARS OF AGE.